

Message Text

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ACTION EB-07

INFO OCT-01 EA-07 ISO-00 INR-07 L-03 SS-15 SP-02 /042 W

----- 125717

P 250901Z FEB 76

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC PRIORITY 7183

C O N F I D E N T I A L SECTION 1 OF 2 TOKYO 2803

STADIS////////////////////////////////

E.O. 11652 GDS

TAGS: ETRD, JA, US

SUBJ: JAPANESE SPECIALTY STEEL INDUSTRY VIEWS RE POSSIBLE
RESPONSES TO ITC ESCAPE CLAUSE DETERMINATION

1. EMBASSY CHECKS WITH FOUR SPECIALITY STEELMAKERS
REVEALED THAT AD HOC INDUSTRY COUNTERMEASURES COM-
MITTEE HAS BEEN MEETING DAILY SINCE MID-JANUARY
ANNOUNCEMENT OF ITC RECOMMENDATION FOR US IMPORT
CONTROLS. ACCORDING OFFICIALS OF NISSHIN AND DAIDO
STEEL COMPANIE, WHO ARE CO-CHAIRMEN (NISSHIN REPRESENTING
STAINLESS AND DAIDO ALLOY TOOL STEEL INTERESTS),
INDSUTRY OPINION RE APPROPRIATE COURSE OF ACTION IS
STILLSHARPLY DIVIDED AMONG THREE POSSIBILITIES
DESCRIBED PARAS 2-4 BELOW.

2. ALTERNATIVE ONE: VOLUNTARY EXPORT RESTRAINTS
BY JAPANESE MANUFACTURESES: FIRMS SUPPORTNG THIS
SOLUTION ARGUE: A) IN LONG RUN CORDIAL RELATIONS
WITH US AND ACCOMMODATING "GOOD NEIGHBOR" IMAGE
FOR JAPANESE STEEL INDUSTRY ARE MORE IMPORTANT
THAN PRINCIPLES AT STAKE IN CURRENT ITC CASE;
B) 1969-74 VT AGREEMENT, WHICH INCLUDED PRODUCTS
NOW AT ISSUE, WAS NOT UNPROFITABLE FOR JAPANESE
STEEL INDUSTRY AND COULD BE LIVED WITH AGAIN;
C) VR'S WILL LEAVE MORE CONTROL OVER SITUATION IN
JAPANESE INDUSTRY HANDS THAN WOULD GOVERNMENT
LEVEL RESTRICTIONS;

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D) JAPANESE AGREEMENT IN PRINCIPLE TO VR'S WOULD BUY

TIME BEYOND CURRENT 60-DAY LIMIT IN WHICH TO NEGOTIATE AS FAVORABLE AN ARRANGEMENT AS POSSIBLE. MOST FIRMS FAVORING VR'S ARE THE LARGE, INTEGRATED MANUFACTURERS, SUCH AS NIPPON AND KAWASAKI, WHICH CHIEFLY EXPORT ORDINARY STEEL TO US AND WANT TO GET ALONG WITH SPECIALTY STEEL SITUATION AS QUIETLY AS POSSIBLE. FIRMS OPPOSED TO VR'S ARGUE THAT:

A) VR'S WOULD ASCRIBE LEGITIMACY TO ITC DETERMINATION WHICH INDUSTRY REGARDS AS CONTRARY TO FACTS AND UNFAIR TO JAPAN VIS-VIS EUROPEAN SUPPLIERS (AS EXPLAINED IN COMMENTS TABLED IN WASHINGTON BY INDUSTRY'S LEGAL REPRESENTATIVES);
B) VR'S WOULD SET UNFORTUNATE PRECEDENT FOR DEALING WITH FUTURE OUTBREAKS OF US STEEL INDUSTRY PROTECTIONISM DURING TIMES OF MARKET DOWNTURN;
C) CONSUMER UNION SUIT AGAINST NEW VR'S AND WHILE US TRADE ACT OF 1974 GIVES SOME STATUS TO VR'S THIS IS UNCHARTED LEGAL TERRITORY. OUTCOME OF CASE WOULD BE UNCERTAIN, AND IT COULD PROVOKE UNFAVORABLE CONSUMER ATTITUDE TOWARD JAPANESE STEEL INDUSTRY. FYI: ALL FOUR COMPANIES EMBASSY CONTACTED REPORT THAT ACCORDING TO THEIR INFORMATION USG (VARIOUSLY DESCRIBED AS WHITE HOUSE STAFF, STR, AND STAFF) HAS URGED JAPAN TO INSTITUTE VR'S AND THAT JAPANESE INDUSTRY IS DISCUSSING VR'S IN TERMS OF WHETHER OR NOT TO RESPOND TO USG WISHES.
3. ALTERNATIVE TWO: US-JAPAN GOVERNMENT-TO-GOVERNMENT AGREEMENT: PROPONENTS ARGUE:

(A) CASE HAS GONE TOO FAR IN OFFICIAL US CHANNELS TO BE SOLVED SHORT OF GOVERNMENT-LEVEL REMEDY;
(B) FORMAL GOVT-GOVT AGREEMENT OFFERS OPPORTUNITY TO BARGAIN FOR ARRANGEMENT WHICH PROBABLY WOULD BE NO WORSE THAN VR'S;
(C) SOME LEVERAGE MAY BE GOTTEN OUT OF SIMILAR NEGOTIATIONS BETWEEN US AND GOVERNMENTS OF OTHER SUPPLIERS;
(D) IT WOULD PROTECT JAPANESE INDUSTRY FROM CONSUMER SUIT IN US. OPPONENTS ARGUE THAT THIS SOLUTION HAS DISADVANTAGES DESCRIBED IN ARGUMENTS A & B
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AGAINST VR'S (LATTER PART OF PARA 2 ABOVE).

4. ALTERNATIVE THREE: NO ACTION, IF NECESSARY FORCING USG TO IMPOSE UNILATERAL IMPORT CONTROLS: PROPONENTS ARGUE:
(A) FINAL PRELIMINARY DECISION MAY BE MORE LENIENT THAN ITC RECOMMENDATION, PARTICULARLY IF JAPAN AND OTHER AFFECTED SUPPLIERS ARE SUFFICIENTLY

ADAMANT AND PERSUASIVE IN THEIR WASHINGTON REPRESENTATIONS;
(B) THIS IS ONLY COURSE OF ACTION ENABLING JAPAN TO COMPLETELY REJECT VALIDITY OF ITC DETERMINATION;
(C) JAPANESE PROCLIVITY TOWARD VR'S AND "GENTLEMEN'S AGREEMENTS" HAS OUTLASTED ITS USEFULNESS, AND IT IS TIME FOR JAPAN TO TAKE A HARD LINE AGAINST UNJUSTIFIED PROTECTIONIST DEMANDS FROM ITS TRADING PARTNERS. OPPONENTS ARGUE THAT THIS COURSE IS COMMERCIALY THE RISKIEST AND WHILE IT COULD BE RESORTED TO IF OPTIONS PROVE UNSATISFACTORY, CHOOSING IT FIRST CLOSES THE OTHERS OFF PREMATURELY. EMBOFF IMPRESSION IS THAT SENTIMENT IN INDUSTRY, WHICH IS BITTER ABOUT ITC RULING, FAVORS THIS HARD LINE WHILE OTHER TWO OPTIONS REFLECT COMMERCIAL

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ACTION EB-07

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P 250901Z FEB 76

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC PRIORITY 7184

C O N F I D E N T I A L TOKYO SECTION 2 OF 2 TOKYO 2803

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CALCULATIONS.

5. KAWASAKI STEEL REP SAID HE THOUGHT HIGHER ECHELON EXECUTIVES OF LARGE COMPANIES ULTIMATELY WOULD GO LAONG WITH WHAT WHAT MITI THOUGHT BEST FOR NATIONAL INTERSTS, PARTICULARLY BECUASE TIS IS FIRST AND PRESUMABLY PRECEDENT-ESTABLISHING CASE UNDER NEW US LEGILATION. OTHER INDUSTRY REPS NOTED MITI CLEARLY ANXIOS TO HANDLE SPECIALTY STEEL

IN MANNER WHICH WILL PUT GOJ IN STRONG POSITION DEAL WITH FUTURE ITC CASES. IN THIS REGARD, THEY SAID, MITI SEEMS SOMEWHAT NEGATIVE TOWARD VR'S

OUT OF CONERN THAT US MAY COME TO EXPECT TEM AS
ROUTINE RESPONSE TO PROTECTIONSIST PRESSURE.

6. CMMITTEE CO-CHAIRMAN SAID INDUSTRY EXPECTS
TO HAVETO REACH SOME KIND OF DECISION BY NEXT
WEEK IN ORDERTO PREPARE FOR NECESSARY TALKS OR
REPRESENTATIONS IN WASHINGTON PRIOR TO 60-DAY DEAD-
LINEAM

7. EMBASSY HAS BEEN INFORMED THAT MITI NORTH
AMERICAN AFFAIRS DIVISIN CHIEF, H. KINOSHITA,
IS LEAVING FORWASHINGTON HE WILL PROBLALBY BE INTERESTED
IN DICUSSING STEEL SITUATION.

8. WHEN EMBASSY'S COMMERCIAL COUNSELOR CALLED ON
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MOFA SECOND NORTH AMERICA DIVISION DIRECTOR SAITO
2/25 ON OTHER BUSINESS, HE RAISED THE SUBJECT OF
SPECIALTY STEELS. SAITO SAID HE, PERSONALLY, BUT
ALSO A NUMBER OF OTHER JAPANESE OFFICIALS IN MOFA
AND OTHR GOVERNMENT AGENCIES AND PRIVATE INDUST-
RY FAVORED A GOVT-TO-GOVT AGREEMENT. HE WAS CARE-
FUL TO LABEL THIS AS PERSONAL PREFERENCE AND SAID
THERE WAS OPPOSITION TO IT IN GOVERNMENT AND INDUS-
TRY. HE WAS NOT PREPARED TO GO INTO THE SPECIFICS
OFSUCH AN AGREEMNT BUT DESCRIBED IT AS AN ORDERLY
MARKETING AGREEMENT BASED ON THE SUPPOSITION, HOW-
EVER, THAT THE US IMPORT QUOTA WOULD HAVE TO BE
"SUBSTANTIALLY LARGER" THAN THAT RECOMMENDED BY THE
US INTERNATIONAL TRADE COMMISSION HE SAID HE WAS
UNDER THE IMPRRSSION, BASED UPON REPORTS FROM THE
JAPANESE EMBASSY IN WASHINGTON AND THE LAWYERS REP-
RESENTNG THE JAPANESE INDUSTRY IN THE US, THAT
PRESIDENT FORD WAS COMING UNDER HEAVY POLITICAL
PRESSURE TO ACCEPT THE ITC RECOMMENDATION. FOR THIS
REASON AND BECAUSE OF THE SHORT TIME REMAINING FOR
THE ULTIMATE US DECISION HE WAS VERY ANXIOS TOGET
FROM US AN ACCURATE READING OF THE STATUS AND DIRECT-
ION OF WASHINGTON'S AGENCIES' FORMULATION FOR
PRESEDENTIAL PROMULGATION. WE UNDERTOOK TO ATTEMPT
TO GET THAT READING TO HIM OF POSSIBLE.

9. COMMENT: AS SHOULD BE CLEAR TO ALL, EVERY
JAPANESE WOLD PREFER SOLUTION THAT REJECTED
ITC RECOMMENDATION, REAFFIRMED PRESIDENT'S
OPPOSITION TO PROTECTIONIST MEASURES IN THE
SPIRIT OF RAMBOUILLET AND EXPRESSED CONFIDENCE
IN RISING PROSPECTS OF US ECONOMY. THEY WILL
BE WATCHING CONSTELLATION OF FORCES ADVISING

PRESIDENT IN US AND, IF TRUE TO PAST FORM, WILL
HAVE A PRAGMATIC PROPOSITION THAT WILL BEST SERVE
JAPANESE INTERESTS WE WILL BE HAPPY TO PUSH
IN WHATEVER DIRECTION DEPARTMENT BELIEVES IS
MOST FRUITFUL.

10. ACTIONS REQUESTED: EMBASSY WOULD APPRECIATE
SOONEST ANY POSSIBLE READ-OUT THAT WE CAN PASS
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TO MOFA OF STATUS AND DIRECTION OF WASHINGTON
AGENCIES' CONSIDERATION OF RECOMMENDATION TO BE
MADE TO PRESIDENT WITHIN 60 DAYS FROM JANUARY 16.
HODGSON

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